

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
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/069 W

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R 191950Z MAY 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 1325
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY CARACAS
AMEMBASSY GEORGETOWN
AMEMBASSY NASSAU
AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L KINGSTON 4189

E.O. 11652: GDS
TAGS: ECON, EFIN, EAID, JM
SUBJECT: INTERVIEW WITH SENATOR FLETCHER ON IMF-GOJ AGREEMENT

REFERENCE: KINGSTON 3945

1. SENATOR RICHARD FLETCHER, IN A PRIVATE INTERVIEW WITH
EMBOFF INDICATED THAT THE GOVERNMENT ANTICIPATED A
30 PERCENT INCREASE IN THE PRICE LEVEL IN 1978, FOLLOWED
BY A TAPERING OFF IN 1979 AND 1980; WHILE A CONTINUING
MONTHLY DEVALUATION (CRAWLING PEG) WOULD CONTINUE OVER THE
NEXT TWO YEARS. WAGE INCREASES FOR ORGANIZED LABOR ARE
PROJECTED AT 15 PERCENT ANNUALLY OVER 1978 AND 1979, AND 10
PERCENT IN 1980. THE IDEA OF A WAGE-PRICE FREEZE WAS REJECTED
AS AN ALTERNATIVE AS IT WAS JUDGED TO BE POLITICALLY
INFEASIBLE. EXPORTS WERE FOUND TO BE ALREADY COMPETITIVE
AFTER THE JANUARY 1978 DEVALUATION. THE MAY DEVALUATION TO
J\$1.55 AND THE SMALL MONTHLY DEVALUATIONS PLANNED
OVER THE NEXT TWO YEARS ARE DESIGNED TO OFFSET THE
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INCREASE IN WAGES AND PRICES OVER 1978-80.

2. THE GOVERNMENT COUNTS ON A SUBSTANTIAL INCREASE IN
THE LEVEL OF OUTPUT AND EXPORTS, THOUGH THE SENATOR
CONCLUDED THAT HE PERSONALLY DOUBTED THAT MUCH NEW
PRIVATE INVESTMENT WILL TAKE PLACE OVER THE NEXT YEAR OR
TWO. HE INDICATED THAT BOTH THE GOJ AND IMF ECONOMISTS

AGREED THAT THE ALTERNATIVE CHOSEN REPRESENTED THE ONLY
ACCEPTABLE COURSE, THOUGH HE FELT THAT THE 15 PERCENT
MAY DEVALUATION WOULD HAVE SUFFICED. FLETCHER BELIEVES
THAT THE GOVERNMENT MAY COLLAPSE IF THE ECONOMIC
SITUATION IS NOT BROUGHT UNDER CONTROL DURING THE NEXT
FEW MONTHS. WE BELIEVE THE RISKS ENTAILED IN THE GOJ-IMF
GAME PLAN ARE HIGH. A DETAILED DESCRIPTION OF FLETCHER'S
VIEWS AND OUR COMMENTS WILL FOLLOW IN AN AIRGRAM.
HAVERKAMP

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